

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA**

KFX MEDICAL CORP.,

Plaintiff,

vs.

ARTHREX, INC.,

Defendant.

CASE NO. 11cv1698 DMS (BLM)

**ORDER GRANTING IN PART
AND DENYING IN PART
PLAINTIFF'S MOTION TO
DISMISS DEFENDANT'S
COUNTERCLAIM**

[Docket No. 32]

This case comes before the Court on Plaintiff KFx Medical Corp.'s ("KFx") motion to dismiss Defendant Arthrex, Inc.'s ("Arthrex") counterclaim of inequitable conduct. Arthrex filed an opposition to the motion, and KFx filed a reply. For the following reasons, KFx's motion is granted in part and denied in part.

I.

BACKGROUND

KFx filed the present case against Arthrex for infringement of United States Patent Number 7,585,311 ("311 Patent"). After KFx filed the lawsuit, it was awarded two additional patents, United States Patent Numbers 8,100,942 ("942 Patent") and 8,109,969 ("969 Patent"), and added these patents to the lawsuit. KFx is the assignee of the patents in suit. (Answer ¶ 10.) All three patents share the same name: "System and Method for Attaching Soft Tissue to Bone." (*Id.* ¶¶ 6-8.) Arthrex counterclaims that

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2 the patents are unenforceable due to inequitable conduct committed before the United States Patent and
3 Trademark Office ("PTO") during the prosecution of all three patent applications. (*Id.* ¶ 78.)

4 Paul C. Steinhardt filed the application for the '311 Patent on June 1, 2005. (*Id.* ¶ 81.) In or
5 about August 2005, while the application for the '311 Patent was pending, KFx CEO Tate Scott
6 contacted Peter J. Millet, co-author of an October 2004 article entitled "Mattress Double Anchor
7 Footprint Repair: A Novel Arthroscopic Rotator Cuff Repair Technique." ("Millet article") (*Id.* ¶¶ 83,
8 85, 87, 109.) During that contact, Mr. Millet informed Mr. Scott that the procedures referenced in the
9 Millet article had been performed as early as March 2003, long before the publication of the article. (*Id.*
10 ¶ 109.) This information was not disclosed to the PTO prior to the issuance of the '311 Patent. (*Id.* ¶¶
11 109, 118.) Instead, on January 30, 2007, Ryan Melnick, attorney for KFx, filed an information disclosure
12 statement ("IDS") that included the Millet article. The '311 Patent issued on September 8, 2009. (*Id.* ¶
13 81.)

14 In 2011 the PTO reexamined the '311 Patent. (*Id.* ¶¶ 92-94.) In response to the reexamination
15 notice, Mr. Melnick submitted another IDS on April 12, 2011, which included a statement by Mr. Scott
16 ("Scott Statement"). (*Id.* ¶ 95.) The Scott Statement provided that Mr. Millet told Mr. Scott the
17 procedures referenced in the Millet article had been performed in the two years preceding publication
18 of the article. (*Id.* ¶¶ 96-97, 100.) The PTO refused to consider the April 12, 2011 IDS containing the
19 Scott Statement, however, partly because "[t]here is no showing as to when the patent owner first
20 became aware of the existence of the items of information now being submitted, and no explanation as
21 to why the information could not have been submitted earlier. (*Id.* ¶¶ 104-08.)

22 On September 26, 2011, Mr. Melnick filed the applications for the '942 and '969 Patents. (*Id.*
23 ¶ 119.) Both applications claim priority to the '311 Patent. (*Id.* ¶ 120.) On December 1, 2011, Mr.
24 Melnick filed an IDS for each application, both of which state the Scott Statement was "submitted in
25 reexamination No. 90/011,430." (*Id.* ¶¶ 123, 128.) Neither IDS disclosed that the PTO refused to
26 consider the Scott Statement during the reexamination or why the PTO refused to consider the Scott
27 Statement. (*Id.* ¶¶ 129-31.)

28

1 That same day, Mr. Melnick participated in a telephonic interview with the examiner on the
 2 pending applications (*Id.* ¶ 132.) During this interview, Mr. Melnick discussed United States Patent
 3 Numbers 5,569,306 ("Thal") and 5,634,926 ("Jobe") with the examiner, but did not mention the Scott
 4 Statement. (*Id.* ¶¶ 133, 136.)¹ Mr. Melnick also did not inform the examiner that the claims of the '969
 5 Patent were entitled to a priority date of September 1, 2005. (*Id.* ¶ 141.) The '942 and '969 Patents
 6 issued on January 24, 2012, and February 7, 2012, respectively. (*Id.* ¶ 119.) The PTO allowed both
 7 patents for the same reasons as the '311 Patent. (*Id.* ¶¶ 144-47.)

8 On January 30, 2012, after the PTO issued a notice of allowance on the '942 and '969 Patents
 9 and after Mr. Melnick filed the issue fee payment, Arthrex served its preliminary invalidity contentions
 10 in this case regarding the '311 Patent ("Invalidity Contentions"). (*Id.* ¶ 155.) The Invalidity Contentions
 11 allege each asserted claim of the '311 Patent is anticipated under 35 U.S.C. § 102 by information and
 12 documents previously known to KFx and not previously considered by the PTO during prosecution of
 13 the patents. (*Id.* ¶¶ 155-56.) On February 6, 2012, Mr. Melnick filed an IDS that included the Invalidity
 14 Contentions. (*Id.* ¶ 158.) Mr. Melnick requested that the references be placed in the file for consideration.
 15 (*Id.* ¶ 160.)

16 II.

17 DISCUSSION

18 Arthrex claims KFx committed four instances of inequitable conduct during the prosecution of
 19 the patents in suit. Arthrex first claims that KFx committed inequitable conduct when KFx's CEO Mr.
 20 Scott failed to disclose to the PTO that he knew the work described in the Millet article had actually
 21 been performed by Mr. Millet prior to the provisional application filing date of the '311 Patent. (Opp'n
 22 to Mot. at 1:4-9.) After the '942 and '969 Patents were added to KFx's lawsuit, Arthrex made three
 23 additional charges of inequitable conduct. These three charges are at issue in the present motion.
 24 Arthrex's first charge alleges that during prosecution of the '942 and '969 Patents, KFx's attorney Mr.
 25 Melnick misled the examiner into believing that the Scott Statement and other information was being
 26 considered by another examiner during reexamination of the '311 Patent. (*Id.* at 2:1-4.) The second
 27

28 ¹ The examiner considered the Thal and Jobe Patents during prosecution of the '311 Patent, and
 allowed the claims over both references. (*Id.* ¶¶ 134, 146-147.)

1 charge alleges that KFx failed to disclose to the PTO the fact that the '969 Patent is entitled to a priority
2 date of June 1,

3 ///

4 2005. (*Id.* at 2:5-7.) The third charge alleges that KFx failed to disclose Arthrex's '969 Patent Invalidity
5 Contentions to the PTO. (*Id.* at 2:13-15.)

6 **A. Standard of Review**

7 In two recent opinions, the Supreme Court established a more stringent standard of review for
8 12(b)(6) motions. *See Ashcroft v. Iqbal*, 556 U.S. 662, 129 S.Ct. 1937 (2009); *Bell Atlantic Corp. v.*
9 *Twombly*, 550 U.S. 544 (2007). To survive a motion to dismiss under this new standard, “a complaint
10 must contain sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible on its
11 face.’” *Iqbal*, 129 S.Ct. at 1949 (citing *Twombly*, 550 U.S. at 570). “A claim has facial plausibility
12 when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the
13 defendant is liable for the misconduct alleged.” *Id.* (citing *Twombly*, 550 U.S. at 556).

14 “Determining whether a complaint states a plausible claim for relief will ... be a context-specific
15 task that requires the reviewing court to draw on its judicial experience and common sense.” *Id.* at 1950
16 (citing *Iqbal v. Hasty*, 490 F.3d 143, 157-58 (2d Cir. 2007)). In *Iqbal*, the Court began this task “by
17 identifying the allegations in the complaint that are not entitled to the assumption of truth.” *Id.* at 1951.
18 It then considered “the factual allegations in respondent’s complaint to determine if they plausibly
19 suggest an entitlement to relief.” *Id.* at 1951.

20 **B. Inequitable Conduct**

21 The Federal Circuit recently “tighten[ed] the standards for finding both intent and materiality
22 in order to redirect a doctrine that has been overused to the detriment of the public.” *Therasense, Inc.*
23 *v. Becton Dickinson and Co.*, 649 F.3d 1276, 1290 (Fed. Cir. 2011). Under these new standards, “the
24 accused infringer must prove that the patentee acted with the specific intent to deceive the PTO.” *Id.*
25 (citing *Star Scientific Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008)). Gross
26 negligence and negligence no longer suffice. *Id.* Furthermore,

27 to meet the clear and convincing evidence standard, the specific intent to deceive must
28 be “the single most reasonable inference able to be drawn from the evidence.” Indeed,
the evidence “must be sufficient to *require* a finding of deceitful intent in the light of

all the circumstances.” Hence, when there are multiple reasonable inferences that may be drawn, intent to deceive cannot be found.

Id. at 1290-91 (citations omitted). With respect to materiality, the court adjusted that standard to one of:

but-for materiality. When an applicant fails to disclose prior art to the PTO, that prior art is but-for material if the PTO would not have allowed a claim had it been aware of the undisclosed prior art. Hence, in assessing the materiality of a withheld reference, the court must determine whether the PTO would have allowed the claim if it had been aware of the undisclosed reference. In making this patentability determination, the court should apply the preponderance of the evidence standard and give claims their broadest reasonable construction.

Id. at 1291-92. In addition, the court made it clear that “[i]ntent and materiality are separate requirements.” *Id.* at 1290 (citing *Hoffman-La Roche, Inc. v. Promega Corp.*, 323 F.3d 1354, 1359 (Fed. Cir. 2003)). Thus, district courts should no longer “use a ‘sliding scale’ where a weak showing of intent may be found sufficient based on a strong showing of materiality, and vice versa.” *Id.*

1. The Scott Statement

Arthrex first charges that Mr. Melnick misled the examiner away from material information during the prosecution of the '942 and '969 Patents. Specifically, Arthrex alleges that Mr. Melnick's December 1, 2011 IDS misled the examiner away from the material information contained in the Scott Statement when it provided that the Scott Statement was "submitted in the Re-examination," but did not disclose that the PTO refused to consider the Scott Statement during the reexamination or why the PTO refused to consider it. (Answer ¶¶ 123, 128-29.) Additionally, Arthrex alleges that Mr. Melnick, knowing the PTO had not yet considered the material information, failed to mention the Scott Statement or Millet article during the phone interview with the examiner, and instead discussed the Thal and Jobe references which the '311 Patent overcame. (*Id.* ¶¶ 133-36.) KFx contends that the Millet article and Scott Statement were both submitted to the examiner in the December, 1, 2011 IDS for each of the '942 and '969 Patents, and inequitable conduct cannot result from submitting information and not bringing it to the specific attention of the examiner. (Mem. of P. & A. in Supp. of Mot. at 6:1-2, 9:18-20.) KFx also argues that the examiner considered the Scott Statement, therefore KFx did not actually withhold any material information. (*Id.* at 11:1.)

"A charge of inequitable conduct based on a failure to disclose will survive a motion to dismiss only if the plaintiff's complaint recites facts from which the court may *reasonably infer* that a specific

1 individual both knew of invalidating information that was withheld from the PTO and withheld that
2 information with a specific intent to deceive the PTO." *Delano Farms Co. v. Cal. Table Grape Comm'n*,
3 655 F.3d 1337, 1350 (Fed Cir. 2011) (citing *Exergen v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1318,
4 1330 (Fed. Cir.2009)) (emphasis added), *pet. for cert. filed*, 80 U.S.L.W. 3652 (U.S. May 11, 2012) (No.
5 11-1371, 11A832). The Federal Circuit has also held that, "[b]ecause direct evidence of deceptive intent
6 is rare, a district court may infer intent from indirect and circumstantial evidence. " *Therasense*, 649
7 F.3d at 1290. Here, Arthrex has sufficiently pled both materiality and specific intent.

8 Arthrex has alleged that Mr. Melnick and KFx deceptively misled examiners away from material
9 information on multiple different occasions, dating back to the '311 Patent prosecution and
10 reexamination (which the '942 and '969 Patents relate back to) and continuing into the prosecution of
11 the '942 and '969 Patents. Arthrex argues that the Scott Statement, the Millet article and the work
12 performed for the Millet Article are all material because the information disclosed limitations that would
13 render the '311, '942 and '969 Patent claims unpatentable. (Answer ¶¶ 113-15, 120.) The fact that the
14 examiner did not consider the Scott Statement or the Millet article (even though he checked it off on the
15 IDS) is evidenced by his decision to allow the '942 and '969 Patents for the same reasons as he allowed
16 the '311 Patent, and those reasons identify limitations disclosed in the work described by the Millet
17 article. (*Id.* ¶¶ 112-14, 146-49.) Further, Mr. Scott's and Mr. Melnick's alleged pattern of withholding
18 information and affirmatively misleading PTO examiners in connection with the '311, '942, and '969
19 Patents allows for a reasonable inference of specific intent to deceive the PTO. (*Id.* ¶ 153.) KFx's
20 defense that inequitable conduct cannot occur when the information is disclosed is unpersuasive.
21 Arthrex alleges that KFx intentionally misled the examiner away from material information, not that
22 KFx failed to disclose it. Accordingly the Court denies KFx's motion to dismiss this inequitable conduct
23 charge.

24 2. The Priority Date

25 Arthrex next alleges KFx committed inequitable conduct when Melnick failed to disclose the
26 actual priority date of the '969 Patent. Specifically, Arthrex alleges '969 Patent claims priority back to three
27 provisional applications, one of which was filed as early as June 2, 2004, pre-dating the Millet article
28 published in October 2004. (Opp'n to Mot. at 13:20-22.) However, the '969 Patent was actually entitled

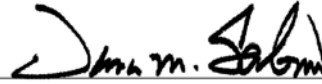
1 to a priority date of June 1, 2005. (Answer ¶ 141.) Arthrex claims the Millet article is material because it
2 discloses the same limitations the examiner identified as missing from the Thal and Jobe references he
3 considered. (Opp'n to Mot. at 13:26, 14:1.) Arthrex also claims that Mr. Melnick knew, but did not inform
4 the examiner of the correct priority date because if the examiner knew that the Millet article was prior art
5
6 to the '969 Patent then he would have applied the Millet article in rejecting the claims. (*Id.* at 13:23-25,
7 14:2-3.)

8 KFx contends that Arthrex has failed to state a claim based on the '969 Patent priority date for
9 several reasons. Most notably, KFx contends that it disclosed the Scott Statement and informed the
10 examiner that the Millet work described in the Scott Statement predated all KFx applications; therefore,
11 it is immaterial what date KFx listed as the priority date. (Mem. of P. & A. in Supp. of. Mot. at 12:24-27,
12 13:13-17.) Accordingly, any failure to affirmatively inform the examiner of the June 1, 2005 priority date
13 is immaterial and would not have impacted patent prosecution. (*Id.* at 13:16-17.)

14 The Manual of Patent Examining Procedure (MPEP) states that if an application "properly claims
15 benefit under 35 U.S.C. 119(e) to a provisional application, the effective filing date is the filing date of the
16 provisional application." MPEP § 706.02 (2012). All relevant information made available to the public
17 in any form before the effective filing date constitutes prior art, and thus would be considered material to
18 a patent's claims of originality. *See* 35 U.S.C. § 102 (2012). Here, Arthrex sufficiently pleads facts
19 necessary to state a claim of inequitable conduct based on KFx's allegedly deceptive practice of listing
20 an invalid priority date. Accepting Arthrex's allegation that the examiner did not consider the Scott
21 Statement as true, the failure to disclose the actual priority date is material because the June 2, 2004
22 priority date eliminated the Millet article as prior art, and therefore the examiner did not consider it during
23 the '969 Patent prosecution. (Opp'n to Mot. at 15:4-7) Furthermore, Arthrex's allegation of KFx's pattern
24 of misconduct surrounding all three patents allows for a reasonable inference of specific intent with this
25 inequitable conduct claim as well. Thus, KFx's claim that the date is immaterial because the examiner
26 knew of the work from the Millet article fails. Arthrex also alleges that the examiner did not consider the
27 Scott Statement because Mr. Melnick misled him into believing that another examiner had already
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1 the pleading deficiencies set forth herein, that charge will be dismissed with prejudice and without leave
2 to amend. **IT IS SO ORDERED.**

3 DATED: August 15, 2012



HON. DANA M. SABRAW
United States District Judge